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SUBJECT: FUKUOKA GOVERNOR DISMISSES "CHINA THREAT," BUT ALSO
ADVOCATES "BEYOND CHINA" ECONOMIC STRATEGY

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SUMMARY

¶1. (U) Local perceptions of China as an economic threat have diminished as Japan's economy successfully adjusts to new global market realities, according to Fukuoka Prefecture Governor Wataru Aso. The emergence of China and other big developing countries as major markets, and renewed emphasis by Japanese businesses on hi-tech, value-added production are the key factors, Aso said. Still, last year's anti-Japan demonstrations in China served as a wake-up call for the need to diversify Asia business links beyond China, a strategy Aso is aggressively pursuing with visits to India, Thailand, and Vietnam. In the current, chilly Japan-China political environment, Aso is a vocal advocate for local initiatives to strengthen bilateral ties. End summary.

IN FUKUOKA, LITTLE PERCEPTION OF "CHINA THREAT"

¶2. (U) Speaking recently at a Fukuoka business forum, Fukuoka Governor Wataru Aso outlined the prefecture's current strategy toward business with Asia. Looking at China, Aso said that over the last couple of years the local perception of China as an economic threat to Japan has greatly diminished. (NOTE: Aso did not comment on the related issue of whether China is perceived as a strategic/military threat. END NOTE.) This changed view of China has paralleled Japan's emergence from its decade-long economic slump into a new phase of development. Aso cited three main reasons for the transition: 1) an expanded global market and renewed corporate focus on "core competencies;" 2) technology development; and 3) introduction of new production processes.

JAPAN'S "CORE COMPETENCE": TECHNOLOGY DEVELOPMENT

¶3. (U) According to Aso, Japan's new-found business confidence vis-a-vis China stems first of all from firms discarding the "diversification" model to devote creative energies and resources to "core competence." This has meant a return to high-value services and technology-intensive manufacturing, instead of branching out into multiple lines of unrelated business as many did in the 1980s and 90s. Having spent the last decade shedding unprofitable bubble-era baggage and restoring healthy balance sheets, corporate Japan is now focused on building global market share through core competitiveness, sustained by strong R&D and capital investment. This has coincided with the emergence of China and other developing countries (such as India, Russia, and Brazil) as bigger,

wealthier markets for Japanese goods and services. Japanese firms are successfully selling in these markets rather than simply worrying about them as export competitors, Aso explained.

14. (U) With Japanese technological prowess now at the heart of the "core competence" strategy, Aso believes Japan is successfully reforming its technology development structure. Government-industry-university collaboration is improving, backed by a steady flow of government research funding and corporate investment. (Aso noted that, despite greater budget austerity, the GOJ has never cut S&T funding.) Japanese firms steadily apply these innovations to production, replacing more labor-intensive tasks with a "shell production system" whereby one worker supervises multiple tasks performed by high-technology equipment. Firms are no longer obsessed with the notion that they must move production offshore to remain competitive. Instead, they are retooling Kyushu plants to keep more core production at home. Aso observed that this renewed technological acumen is a key factor in dispelling the "China threat."

ADVOCATING A "BEYOND CHINA" STRATEGY

15. (U) Despite China's continued prominence in regional business thinking, Governor Aso believes attitudes are changing. Until last year, "Asia business" was virtually synonymous in Japanese minds with China, and everyone was clamoring to get on the China bandwagon. This is particularly true in Fukuoka, where the slogan "Japan's gateway to Asia" has had a very China-centric bent. However, Aso says local perceptions were impacted strongly by the big anti-Japan demonstrations in China in spring 2005, triggered by Japan's push to become a permanent U.N. Security Council member and fueled by perceptions that Japan has not sufficiently atoned for its past military

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aggressions. Kyushu business people now realize the need to mitigate potential risks by putting China in a broader Asian perspective and by expanding ties throughout the region.

16. (U) Fukuoka has led the way among Kyushu prefectures in pursuing a "beyond China" strategy, forging political and business ties with other Asian countries. A large Fukuoka City trade mission visited India in November 2005, and Governor Aso followed in February 2006. The prefecture aims to conclude a partnership agreement with the government of National Capital Territory (NCT) of Delhi by the end of this year, covering technology development, environmental policy, and personnel exchanges, among other issues. It would be the first such agreement between the NCT of Delhi and a Japanese local government.

17. (U) Fukuoka has similar partnerships with the State of Hawaii, Jiangsu Province, China, and (most recently) Bangkok, Thailand, which Governor Aso visited in February to conclude the agreement. Aso also plans to visit Vietnam to discuss trade issues. To promote local relations with Korea, Fukuoka and three other prefectures in the region since 1992 have held an annual governors' meeting with counterparts from Pusan and surrounding areas.

COMMENT

18. (SBU) First elected in 1995 and now in his third term, Governor Aso is a former METI (then MITI) bureaucrat with an ambitious promotion agenda for Fukuoka. His reputation as an advocate for greater local autonomy, and for more aggressive foreign outreach by local governments, factored in his 2005 election as Chairman of the National Governors' Association of Japan. While sometimes long on rhetoric, Aso has nevertheless presided over a boom in hi-tech manufacturing and increased trade with Asia that make Fukuoka the envy of other prefectures in Kyushu. Despite the current diplomatic chill, Aso is cautiously optimistic about the future of Japan-China relations. While careful at the recent seminar not to comment directly

about PM Koizumi's Yasukuni Shrine visits, Aso observed that the deterioration in relations is a liability not just for Japan, but for China too. There is impetus for both sides to find common ground, he said, starting with strong trade and other links at the local level. End comment.

KETTNER